HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

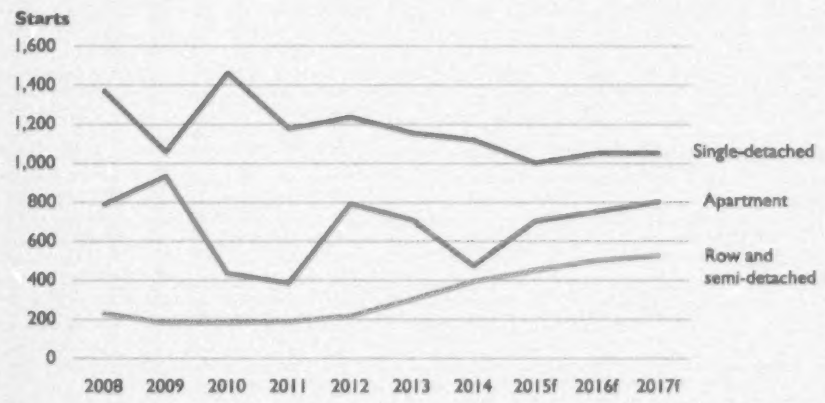
Date Released: Fall 2015

Highlights

- Total housing starts will increase seven per cent to 2,300 starts in 2016 and will grow again in 2017.
- MLS® sales will increase three and a half per cent to 9,500 sales in 2016 and be higher in 2017.
- The average vacancy rate will decrease to 2.5 per cent in 2016 and be stable in 2017.

Figure 1

Higher Single-detached, Row and Apartment Starts in 2016



Source: CMHC Starts and Completions Survey, f= forecast

Forecasts and historical data included in this document reflect information available as of September 29, 2015.

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New Home Market: Higher Starts in 2016 Due to Greater Household Formation

Greater household formation in London will lead to higher total housing starts in 2016. Improved labour market conditions will cause a larger percentage of London's growing number of 25 to 34 year olds to leave the parental home to form their own households. A third consecutive year of job growth is forecast for London in 2016. Greater growth in households headed by 25 to 34 years olds will cause the resale market to tighten next year. Developers will respond to tighter resale market conditions by increasing housing starts. Total housing starts will be higher in 2017, as another year of job growth will lead to greater household formation than in 2016.

Greater growth in households headed by 25 to 34 year olds will cause the resale market under $350,000, which already favoured sellers in 2015, to have a greater shortage of listings relative to demand next year. As a result, the greatest growth in housing starts in 2016 will be new homes selling under $350,000. Most households headed by 25 to 34 year olds in London are not expected to purchase a home for greater than $350,000. The income required to qualify for a mortgage on a $350,000 home with a 5 to 20 per cent down payment will range from approximately $60,000 to $75,000 in 2016[1].

Pre-construction prices for most new row homes and condominium apartments are below $350,000 in London. Less than a half of new single-detached homes were purchased for less than $350,000 in the first half of this year. Therefore, growth in single-detached starts is expected to be milder than growth in row home and condominium apartment starts. The resale market for homes selling above $350,000 will tighten but still be balanced, putting little upward pressure on single-detached starts. Rising carrying costs due to price growth and mortgage rates starting to edge higher in late 2016 will stabilize the resale market for more expensive homes in 2017. As a result, single-detached starts are not expected to increase in 2017.

Demographics Most Supportive of Row and Condo Apartment Starts

Greater growth in households headed by persons aged 55 years and older will also support higher row home and condominium apartment starts. The 2011 Census showed that two-thirds of London's row/condominium apartments that were five years old or less at that time were owned by households headed by a person either 25 to 34 years old or 55 years of age and older. Greater growth in the average MLS® sale price next year will also cause a larger share of households headed by a person 55 years of age and older to sell their existing home and purchase a new row home or condominium apartment. Higher row home and condo apartment starts are forecast for 2017, due to a tighter resale market for less expensive homes and greater growth in households headed by a person 25 to 34 years old and 55 years of age and older.

Rental housing starts will be up slightly in 2016. Based on their historical propensities to rent in London, estimated growth in households headed by a person 25 to 44 years old and 55 years of age and older will lead to slight growth in rental households. A vacancy rate of two per cent or less in the $1250-$1499 and $1500 and above rent ranges, where most new units would be found, will also encourage higher rental starts. The downward trend in net international migration in recent years in London will reduce upward pressure on rental housing starts. In 2017 rental housing starts will be stable due to similar rental household growth as in 2016.

A City of London program introduced in 2015 to forgive residential development charges in its Downtown and Old East Village Community Improvement Areas will also put upward pressure on apartment starts.

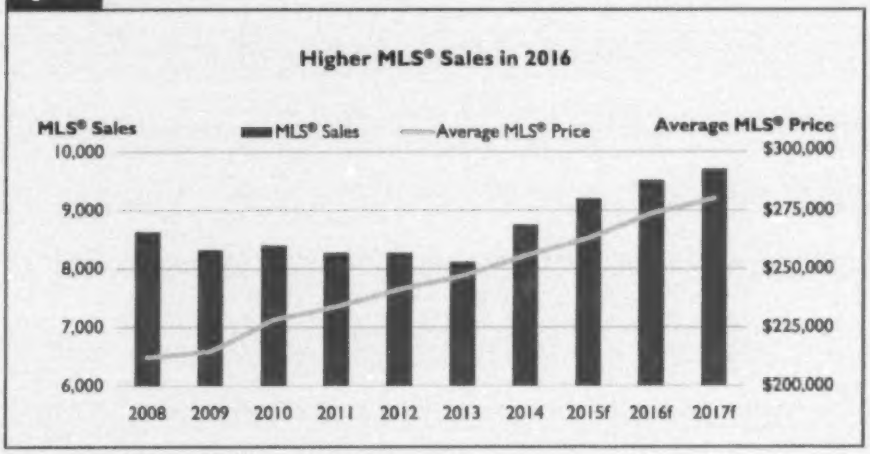
[1] Based on the 2016 forecast five year benchmark mortgage rate, 25 year amortization and 32 per cent gross debt service ratio.

Existing Home Market: Greater Demand Due to Job Growth and Affordable Carrying Costs

MLS® sales in London are on pace to grow to pre-recession levels this year and will grow again in 2016. Higher MLS® sales will be supported by job growth and affordable carrying costs. The average resale home in London will be slightly more expensive to its average household in 2016, due to greater growth in carrying costs than average weekly earnings. However, demand for resale homes will hardly be affected, as the income required to qualify for a mortgage on the average resale home will remain comfortably lower than the projected income of the average household in London. Carrying costs will be higher due to approximately 4 per cent growth in the average MLS® sale price and mortgage rates edging higher in late 2016. Growth in average weekly earnings will be greater than in 2015, due to a lower unemployment rate and greater share of jobs being in higher paying industries.

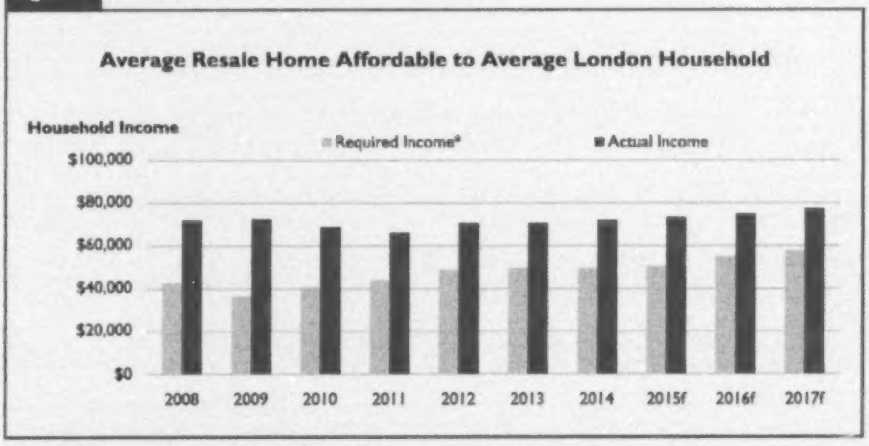
MLS® sales will be higher in 2017, primarily due to another year of job growth. Carrying costs for the average resale home, while growing more than average weekly earnings again in 2017, will remain affordable to the average household in London. Average MLS® sale price growth of 2.5 per cent and slowly rising mortgage rates during 2017 will lead to greater growth in carrying costs than in 2016.

Figure 2



Source: CMHC, adapted from CREA (MLS®)
MLS® is a registered trademark of the Canadian Real Estate Association

Figure 3



Source: CMHC, adapted from Statistics Canada and CREA
*Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the five-year mortgage benchmark rate and the longest available amortization.

Greater Growth in Average MLS® Sale Price in 2016

A tighter resale market will lead to greater growth in the average MLS® sale price than in 2015. Existing home sales are expected to grow more than new listings. The greatest price growth in 2016 will be in the first half of the year, as sales grow and new listings remain stable. New listings will not grow until the second half of 2016, in reaction to greater price growth earlier in the year. The sales-to-new listings ratio will be at its lowest point of 2016 in the fourth quarter, as slightly higher mortgage rates will lead to slower growth in MLS® sales. The overall resale market is

expected to be in balance throughout 2016, although the market for lower priced resale homes will favour sellers. The average MLS® sale price is expected to grow less in 2017, as new listings grow more than MLS® sales. Improved labour market conditions and greater price growth in 2016 will cause a higher number of homeowners to list their homes for sale in 2017.

Migration is expected to be more supportive of housing demand in 2016 than in 2015. The primary source of positive net migration in London has been people from other countries. Historically in London, changes in net international migration six years ago have a significant effect on MLS® sales in the current year. The largest increase in the homeownership rate of immigrant households in London occurs when they go from being 0 to 5 years to 6-10 years in Canada. Strong growth in net international migration in London from 2009 to 2010 will contribute to growth in MLS® sales next year. Greater net migration from other parts of Ontario and reduced outflows to other provinces, both of which tend to have an immediate effect on homeownership markets, will also support growth in MLS® sales in 2016. A smaller outflow of people to other provinces will occur due to a weaker labour market in Western Canada and strengthening labour market in London. Intra-provincial net migration will also increase due to a lower unemployment rate in London.

Rental Market: Vacancy Rate to Decrease in 2016

The vacancy rate for purpose-built rental apartments in structures with three units or more will decrease to 2.5 per cent in 2016. The number of apartments in the rental universe will increase, primarily due to the completion of new units. However, the supply of rental housing will grow less than rental demand. Average rent for a two-bedroom apartment will increase due to a tighter rental market and a higher Ontario Rent Control Guideline than in 2015.

Improved labour market conditions and a smaller percentage of renters transitioning into homeownership will lead to greater rental demand in 2016. Job growth will cause greater growth in households headed by 25-34 years old, the age group with the second highest historical propensity to rent in London. A roughly equal proportion of 25-34 year olds that move out of the parental home in 2016 are expected to rent versus buy a home. The carrying cost for the average MLS® sale will grow more than average rent for a two-bedroom apartment in London next year, leading to a higher cost to substitute from rental to homeownership. The student populations at both Western University and Fanshawe College are both expected to grow, however the additional student renters will be absorbed by new student rental housing. Stable international migration is expected to generate a similar number of new rental households as in 2015.

The vacancy rate will be stable in 2017, due to roughly equal growth in the supply and demand for rental housing. Growth in the rental universe will be greater than in 2016 due to a higher number of rental completions. Growth in rental households will be similar to 2016. Average rent for a two-bedroom apartment will increase due to a tighter rental market.

Economic Trends: Unemployment Rate to Decrease in 2016 and 2017

The unemployment rate will decrease to 6.3 per cent in 2016 due to greater growth in jobs than in the labour force. A greater decrease in the Canadian to US dollar exchange rate this year compared to 2014 led to greater job growth in London in 2015. The exchange rate is forecast to be slightly lower in 2016. Industries in London's goods-producing sector industries, particularly manufacturing and agriculture, will continue to benefit from the Canadian dollar to US dollar exchange rate remaining below $0.80. Job growth will also be supported by growth in motor vehicle sales, both in Ontario and the US. Increased spending on motor vehicles will be supported by improved labour market conditions in both regions in 2016, including greater wage growth. Jobs in the manufacturing of motor vehicles and motor vehicle parts combined make up the largest share of manufacturing employment in London.

In 2017, the unemployment rate is expected to decrease to 6.2 per cent, again due to greater growth in jobs than in the labour force. Job growth will slow slightly in 2017, as the Canadian to US dollar exchange rate is expected to be relatively stable. Should the price of oil rise faster than anticipated, the Canadian to US dollar exchange rate would increase, leading to weaker job growth than forecast for London.

Mortgage Rate Outlook: Mortgage rates are expected to begin to rise moderately from current levels late in 2016

Mortgage rates are expected to continue trending close to current levels, supporting housing demand. However, consistent with the view of Canadian economic forecasters, CMHC expects interest rates to begin to rise moderately from current levels late in 2016, contributing to a modest slowdown in housing markets.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.60 to 3.30 per cent range, while the five-year rate is forecast to be within the 4.10 to 5.20 per cent range. For 2016, the one-year mortgage rate is expected to be in the 3.00 to 3.80 per cent range, while the five-year rate is forecast to be within the 4.70 to 6.00 per cent range. For 2017, the one-year mortgage rate is expected to be in the 3.90 to 4.80 per cent range, while the five-year rate is forecast to be within the 5.10 to 6.50 per cent range.

Mortgage rates		
1 Year	Q3 2015	2.90
	Change from Q3 2014	-0.24
	2014	3.14
	2015 (F)	2.60 to 3.30
	2016 (F)	3.00 to 3.80
	2017 (F)	3.90 to 4.80
5 Year	Q3 2015	4.65
	Change from Q3 2014	-0.14
	2014	4.88
	2015 (F)	4.10 to 5.20
	2016 (F)	4.70 to 6.00
	2017 (F)	5.10 to 6.50

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q3 2015 data

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will begin to rise gradually late in 2016, contributing to moderation in housing demand.
Employment	Job growth in 2016 and 2017 will lead to greater housing demand.
Household Formation	Improved labour market conditions will lead to greater household formation, particularly among the growing 25 to 34 year old population.
Resale Market	The resale market is expected to be balanced overall, with price growth of 4.0 per cent in 2016 and 2.4 per cent in 2017. However, the resale market for homes under $350,000 will favour sellers, leading to higher starts under $350,000 in both years.

Forecast risks

This outlook is subject to some risks, including:

Upside risks

- Stronger-than-expected private domestic demand in the United States

Downside risks

- A higher than forecast Canadian to US dollar exchange rate will slow growth in demand for Canadian manufactured exports and consequently slow employment growth in London.
- A broader slowdown in the economic growth of China will negatively affect Canada through weaker demand for Canadian exports as well as a downward pressure put on commodity prices
- While a soft landing in the housing market remains the most likely scenario, near record-high house prices and debt levels relative to income leave households vulnerable to a potential correction. A disorderly unwinding of household sector imbalances, should it materialize, could have sizable negative effects on the economy.

Forecast Summary London CMA Fall 2015	2012	2013	2014	2015(F)	% chg	2016(F)	% chg	2017(F)	% chg
New Home Market									
Starts:									
Single-Detached	1,234	1,153	1,116	1,000	-10.4	1,050	5.0	1,050	0.0
Multiples	1,006	1,010	867	1,150	32.6	1,250	8.7	1,325	6.0
Semi-Detached	38	24	22	25	13.6	25	0.0	25	0.0
Row/Townhouse	179	278	372	425	14.2	475	11.8	500	5.3
Apartments	789	708	473	700	48.0	750	7.1	800	6.7
Starts - Total	2,240	2,163	1,983	2,150	8.4	2,300	7.0	2,375	3.3
Average Price ($):									
Single-Detached	357,513	367,684	392,558	397,500	1.3	405,000	1.9	420,000	3.7
Median Price ($):									
Single-Detached	329,000	343,000	368,000	380,000	3.3	387,500	2.0	395,000	1.9
New Housing Price Index (% chg.)	1.3	1.8	1.9	1.8	-	2.0	-	2.3	-
Resale Market									
MLS® Sales	8,272	8,113	8,751	9,200	5.1	9,500	3.3	9,700	2.1
MLS® New Listings	16,160	16,371	17,003	17,250	1.5	17,400	0.9	17,900	2.9
MLS® Active Listings	3,193	3,038	3,058	2,950	-3.5	2,975	0.8	3,025	1.7
MLS® Average Price ($)	241,160	246,943	255,452	263,000	3.0	273,500	4.0	280,000	2.4
Rental Market									
October Vacancy Rate (%)	3.9	3.3	2.9	2.7	-0.2	2.5	-0.2	2.5	0.0
Two-bedroom Average Rent (October) ($)	919	924	943	965	2.3	980	1.6	1,000	2.0
Economic Overview									
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.60 to 3.30	-	3.00 to 3.80	-	3.90 to 4.80	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.10 to 5.20	-	4.70 to 6.00	-	5.10 to 6.50	-
Annual Employment Level	242,300	240,400	243,000	247,800	2.0	252,000	1.7	255,000	1.2
Employment Growth (%)	1.9	-0.8	1.1	2.0	-	1.7	-	1.2	-
Unemployment rate (%)	8.7	8.6	7.5	6.6	-	6.3	-	6.1	-
Net Migration	3,297	2,607	2,148	3,000	39.7	3,200	6.7	3,500	9.4

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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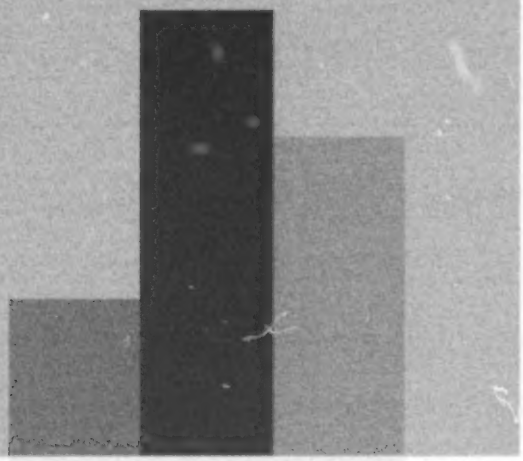

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